

# The Impact of Subsidized Housing Investment on New York City's Neighborhoods

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Mr. Chairman and Members of the Committee, thank you for the invitation to speak to you today about the community benefits of New York City's housing and community development efforts. Since the mid 1980s, New York City has engaged in a massive effort to rebuild its housing stock, funded through a mix of city, state, and federal dollars. In total, the city's programs have built or rehabilitated nearly 200,000 housing units in the city's most distressed neighborhoods.

During the late 1970s, as a result of large population losses, rising landlord costs and stagnant tenant incomes, entire neighborhoods in the city were devastated by waves of abandonment and arson. By 1979, New York City had taken ownership through tax foreclosure of over 60,000 units in vacant buildings and another 40,000 units in occupied buildings. Over the past two decades or so, through the course of the city's housing efforts, virtually all of these properties have been stabilized, rehabilitated, and turned over to responsible private owners.

Together with colleagues at New York University, I have written a number of research papers that document these efforts, and more importantly, examine the extent to which these investments generated positive spillover benefits and contributed to neighborhood revitalization.<sup>1</sup> We have consistently found significant, positive impacts.

Neighborhood revitalization is a concept with no precise definition. Positive community outcomes can include improved schools, lowered crime rates, increased commercial

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1 See Ingrid Gould Ellen and Ioan Voicu, "Non-Profit Housing and Neighborhood Spillovers," *Journal of Policy Analysis and Management*, forthcoming; Amy Ellen Schwartz, Ingrid Gould Ellen, Ioan Voicu, and Michael H. Schill, "The External Effects of Subsidized Housing," NYU Furman Center for Real Estate and Urban Policy, January 2005. Michael H. Schill, Ingrid Gould Ellen, Amy Ellen Schwartz, and Ioan Voicu, "Revitalizing Inner-City Neighborhoods: New York City's Ten Year Plan for Housing," *Housing Policy Debate* 13(3), 2002: 529-566; Ingrid Gould Ellen, Michael H. Schill, Amy Ellen Schwartz, and Scott Susin, "Building Homes, Reviving Neighborhoods: Spillovers from Subsidized Construction of Owner-Occupied Housing in New York City," *Journal of Housing Research* 12(2), 2002, pp. 185-216. Reprinted in Eric Belsky, ed., *Low-Income Homeownership: Examining the Unexamined Goal*. Washington DC: Brookings Institution Press, 2002.

activity, and removal of physical decay. But because land is immobile, to the extent that any of these outcomes occur, they should be capitalized into, or reflected in higher property values. Put simply, if a neighborhood becomes a better place to live, people will be willing to pay more to live there. Thus, we measure neighborhood benefits by increases in the value of surrounding properties.

One of the key ways that housing investment can catalyze neighborhood revitalization is by improving existing, blighted structures in need of rehabilitation. These blighted structures can be a significant drag on a neighborhood's economic health. Dilapidated, abandoned buildings are not only eyesores, but they are also unsafe and can serve as havens for drug activity. Moreover, the disorder they represent may signal that the community is disorganized and that criminal activity will go largely unchecked.<sup>2</sup> The stabilization of these blighted structures and their transformation into stable, occupied housing units is thus critical. It can increase population, fuel commercial activity, reduce crime, and encourage nearby owners to rehabilitate their properties.<sup>3</sup>

Actually identifying the neighborhood spillover effects generated by housing investment is quite difficult. The fundamental challenge is that we cannot know for sure what would have happened to property values in the absence of the housing investment. Different statistical models make different assumptions about this counterfactual. Intuitively, our basic approach is to assume that housing prices would have grown at the same rate as prices of similar properties that are in the very same neighborhood, but a further distance away from the investment. That said, we also experiment with several other assumptions to test for the robustness of our results.<sup>4</sup> We use a technique called hedonic regression analysis to control for the characteristics of the properties that sell and to ensure that we are comparing the sales prices of similar properties.<sup>5</sup>

As mentioned above, I have co-authored a number of research papers examining the neighborhood spillover effects of the city's housing investments. I would like to highlight two of our key results here. The first is that prior to rehabilitation, these city-assisted housing sites – which were typically vacant, abandoned properties that the city had taken over for tax foreclosure – appear to have significantly depressed the value of neighboring properties. Specifically, as shown in Figure 1, we find that for the typical city project, prior to rehabilitation, properties located right next to the original, abandoned properties (distance = 0) sold for 28 percent less than comparable properties located further away but still in the same neighborhood. The reduction in price was typically larger for larger sites and as expected, it declined with distance from the site. Nonetheless, as the figure also shows, we still find significant, price reductions 1,000 feet

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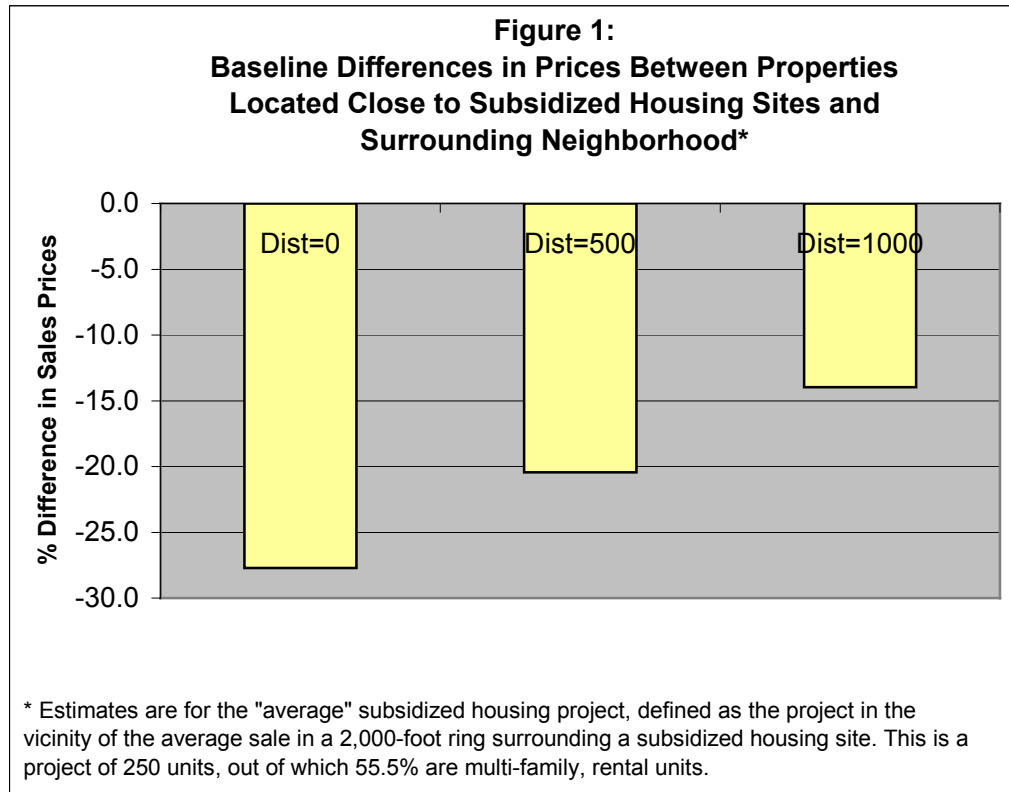
2 See James Q. Wilson and George Kelling, "The Police and Neighborhood Safety: Broken Windows," *Atlantic Monthly* 127 (1982): 29-38. See also Wesley Skogan, *Disorder and Decline: Crime and the Spiral of Decay in American Cities*. Berkeley: University of California Press, 1990.

3 See Amy Ellen Schwartz, Ingrid Gould Ellen, Ioan Voicu, and Michael H. Schill, "The External Effects of Subsidized Housing," NYU Furman Center for Real Estate and Urban Policy, January 2005.

4 See Amy Ellen Schwartz, Ingrid Gould Ellen, Ioan Voicu, and Michael H. Schill, "The External Effects of Subsidized Housing," NYU Furman Center for Real Estate and Urban Policy, January 2005.

5 For more on hedonic regression analysis, see Denise DiPasquale and William Wheaton, *Urban Economics and Real Estate Markets*. Englewood Cliffs, NJ: Prentice Hall, 1996.

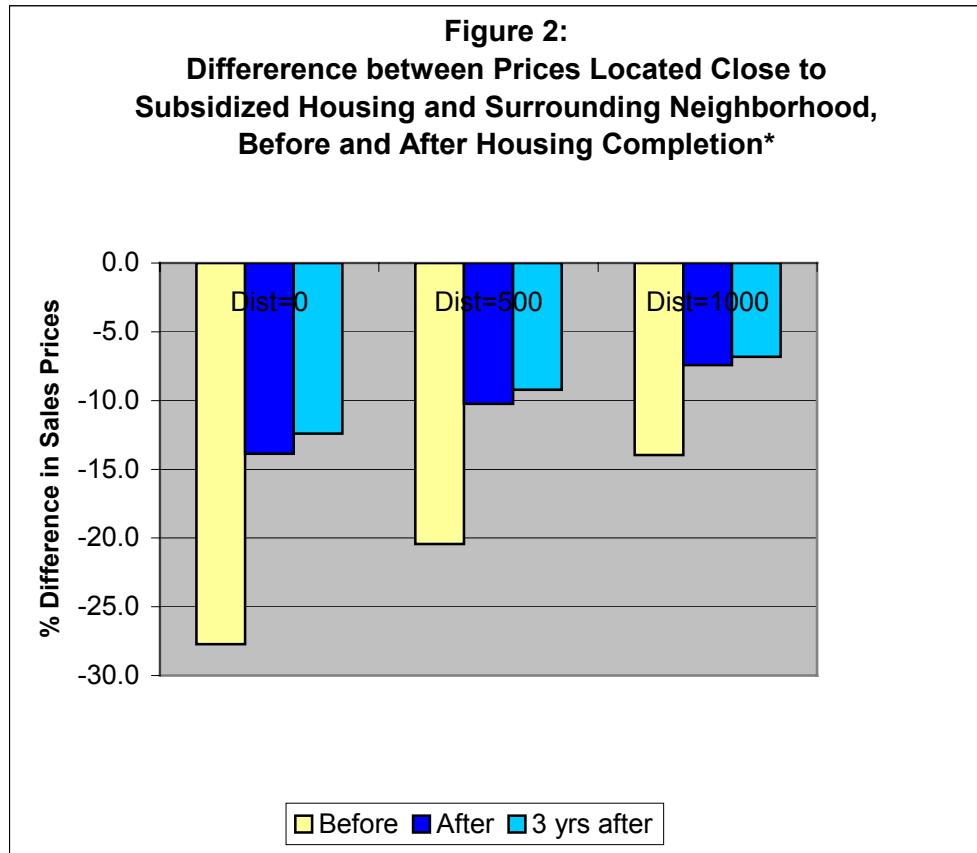
away from assisted housing sites. Specifically, the prices of properties located 1,000 feet from assisted housing sites (distance = 1,000) were 14 percent lower than the prices of comparable properties selling at the exact same time in the surrounding neighborhood. The negative effects generated by these vacant, abandoned properties typically appear to extend to about 2,000 feet.



I hope this figure shows clearly that property abandonment can have grave effects on communities. Moreover, it shows that property abandonment may be extremely costly for local governments. Property tax revenues may decline not only as a result of the failure of the abandoned properties themselves to pay taxes, but also from reductions in the assessed value of neighboring buildings.

The second result I would like to highlight is that New York City's investment in these abandoned, tax-foreclosed properties appears to have yielded significant, positive benefits. As shown in Figure 2, we find that the gap between prices of properties near to assisted housing sites and those in the surrounding neighborhood narrows dramatically after the new housing investment is completed. Immediately after completion, we find that the gap between prices of properties right next to city-assisted housing sites falls

from 28 percent to just 14 percent. Moreover, we find that impacts grow over time, perhaps as families move in and the population rises. Impacts shrink with distance from the new housing, as one would expect, but the figure shows significant effects at 1,000 feet away from subsidized housing investment as well. Building more units appears to bring a greater benefit, though this marginal effect declines as the number of units increases.



\* Estimates are for the "average" subsidized housing project, defined as the project in the vicinity of the average sale in a 2,000-foot ring surrounding a subsidized housing site. This is a project of 250 units, out of which 55.5% are multi-family, rental units.

I think these analyses offer strong evidence that the investments that New York City has made over the past twenty years to stabilize vacant, abandoned properties and to rebuild them as affordable housing for members of the community have generated improvements in the surrounding neighborhoods. While there are plausible alternative explanations for these price patterns, the evidence does not support them. As an example, although city officials may have wanted to pick winning sites where prices were going to appreciate anyway, even in the absence of investment, they had little latitude in their selection. By the end of our study period, virtually all available sites in New York City had been developed. Moreover, the results are robust to various different specifications and statistical techniques.

As for the magnitude of these neighborhood benefits, we find that they are substantial. Indeed, a simple analysis of approximate costs and benefits suggests that New York City's housing investments delivered a tax benefit to the city that exceeded the cost of the city subsidies provided and amounted to some 75 percent of total public investment, which includes both state and federal dollars.<sup>6</sup> It is worth emphasizing that in these calculations we have not considered the benefits enjoyed by the households that actually get to live in the new subsidized housing. Adding such individual benefits would only make the estimates look more favorable.

In summary, these estimates show that publicly-funded housing investments targeted strategically at distressed urban properties can deliver significant neighborhood benefits. Thus, cities may be able to use housing subsidies to serve two purposes – to create new, affordable housing units for qualified recipients and to revitalize urban neighborhoods. Further, the rise in property values in the vicinity of the new housing suggests that a city may to some extent re-coup the investments that it makes in housing through an increase in property tax revenues.

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<sup>6</sup> For more detail on these tax benefit estimates, see Amy Ellen Schwartz, Ingrid Gould Ellen, Ioan Voicu, and Michael H. Schill, "The External Effects of Subsidized Housing," NYU Furman Center for Real Estate and Urban Policy, January 2005.